



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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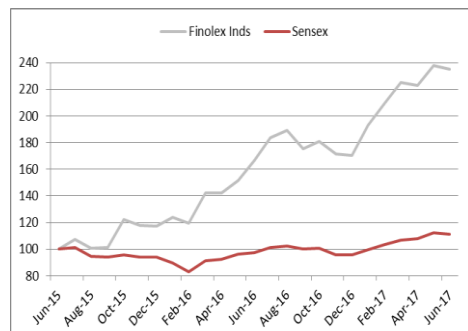
BUY

Current Price	Rs 630
Target Price	Rs 814
52 Week Range	Rs 673/385

Key Share Data

Market Cap (Rs.bn)	78.1
Market Cap (US\$ mn)	1215
No of o/s shares (mn)	124.1
Face Value	10
Monthly	
Avg.vol(BSE+NSE) Nos	80,224
BSE Code	500940
NSE Code	FINPIPE
Bloomberg	FNXP IN

Price performance



% Shareholding

	Mar-17	Dec-16
Promoters	52.47	52.47
Institutions	13.02	13.02
Others	34.51	34.51
Total	100.0	100.0

We met with the management of Finolex to get an outlook on the company and industry and here are the key takeaways

- Company has two line of business Agri and Non- Agri, the mix is 70:30. At present the company seems quite positive on the non agri part of the business since Agri has always been their mainstay and dominance exists there.
- Future of Non Agri business looks positive on account of:
 - Their tie up with Lubrizol gives them enough confidence to do well in the CPVC business where their presence was minimal. With this tie up they plan to ramp up their CPVC offtake to 6,000 TN a year from Lubrizol itself by the end of FY18 in turn improving the top line. So for the next three year if it continues with the same run rate it would be doing 18,000 TN of CPVC pipes. Company plans to ramp it up to 20,000 TN
 - Its competitors are doing 30,000 TN worth of CPVC pipes so the scope is huge in terms of business.
 - The scope of unorganised player (40%) shifting to organised market after GST will benefit Finolex and other listed players.
 - Earlier the tax rate was around 18% and with GST the rate remains at 18% so there is no additional tax burden on GST implementation and won't hinder company growth prospects.
 - The restocking is likely to take some time and dealers remain skeptical on how things will pan out but business would be back to normal from second quarter of FY18 as told by management.
 - Demand drivers for the company would be the replacement market where opportunity is immense and then the affordable housing kicking in would boost up the demand.
 - Since the oil prices are declining the raw material prices will remain in check and the cushion for further improvement is there in margins.
- Total capex that the company is planning in next two years is around Rs 250crs where Rs 120crs for some capacity expansion, Rs 50crs for normal maintenance and Rs 80crs on CPVC.
- Currently Finolex has 800 exclusive dealers and 18,000 retailers. Company plans to further ramp it up.
- There could be a minor deviation in Finolex's market penetration strategy for CPVC business, where it plans to give 30 days' credit as against a cash and carry policy followed earlier.

At the CMP, Finolex is trading at ~22x FY18E and ~19x FY19E EPS. Given its multiple growth triggers, coupled with huge opportunities in the pipes industry, we have BUY recommendation and TP of Rs 814 (25x FY19E EPS).

Financial:-

Rs mn	Net Sales	% Growth	EBITDA	OPM%	PAT	% Growth	EPS	P/E (x)	ROE %	RoCE%
FY16	24819	1.0%	4045	8.6%	2578	-51.7%	20.8	30.3	16.2%	21.3%
FY17	26024	4.9%	5630	21.6%	3549	171.2%	28.6	22.0	15.3%	21.5%
FY18E	29151	12.0%	5679	19.5%	3610	1.6%	29.1	21.7	14.4%	20.6%
FY19E	32762	12.4%	6230	19.0%	4043	12.2%	32.6	19.3	15.0%	21.6%



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